General Services Administration
Office of General Counsel
Washington, DC 20405

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

May 28, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Subject: Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services, CC Docket No. 96-112

Dear Mr. Caton:

Enclosed please find the original and eleven copies of the General Services Administration's Comments for filing in the above-referenced proceeding.

Sincerely,

Michael J. Ettner

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division

Enclosures

cc: International Transcription Service
Andrew Mulitz (Diskette and copy)
Ernestine Creech

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services	)	CC Docket No. 96-112

COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

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May 28, 1996

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Summary

As a large user of telecommunications services, GSA commends the Commission for its articulation of a set of goals and principles in this proceeding which will ensure that ratepayers pay telephone rates that are just and reasonable.

GSA urges the Commission to prevent the subsidization of LEC video programming services by revising its rules to allocate over 50 percent of shared outside plant costs to nonregulated. GSA also recommends that the Commission specify that any depreciation reserve deficiencies and spare capacity costs attributable to nonregulated activities should be directly assigned to nonregulated.

In a conforming change, GSA recommends that the Commission allocate outside plant maintenance expense on the basis of network investment. GSA recommends that the Commission not revise its cost allocation rules in any other respect.

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BEFORE THE
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In the Matter of Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services	CC Docket No. 96-112

COMMENTS OF THE
GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, submits these Comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM"), FCC 96-214, released May 10, 1996. In this NPRM, the Commission requested comments and replies on the allocation of costs associated with the provision of video programming services by local exchange carriers ("LECs").

I. Introduction

Pursuant to Section 111(a) of the Federal Property and Administrative Services Act of 1949, as amended 40 U.S.C. 759 (a)(1), GSA is vested with the responsibility to coordinate and provide for the procurement of telecommunications services for Federal Executive Agencies. That Act also allows GSA to delegate responsibility for the procurement of services to individual agencies when there are good reasons for such delegation.[1]

GSA is thus directly or indirectly one of the largest users of telecommunications services in the nation. As a large user of telecommunications services, GSA has long been concerned that it will be forced to subsidize LEC provision of video services. [2] In these Comments, GSA supports the Commission's proposal to revise its Part 64 rules to "protect customers of regulated services against cost misallocations."[3]

II. The Commission's Goals And Purposes In This Proceeding Are Appropriate.

The Commission recognizes three basic goals for this proceeding, as follows:

> First, we seek to give effect to the provisions of the 1996 Act, and the underlying Congressional intent, that facilitate the development of competitive telecommunications service offerings. Second, we intend to give effect to provisions relating in particular to local exchange carrier entry into video distribution and programming services markets. Our third goal is to ensure that ratepayers pay telephone rates that are just and reasonable, as mandated by Section 201(b) of the Communications Act of 1934, as amended, and that are just, reasonable and affordable, as mandated by Section 254(b)(1) of the 1996 Act. We also seek to ensure, as mandated under Section 254(k) of the 1996 Act, that incumbent local exchange carriers do "not use services that are not competitive to subsidize services that are subject to competition."[4]

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[1] 40 U.S.C. 759 (b)(3).

[2] See, e.g., Price Cap Performance Review for Local Exchange Carriers, Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1, Comments of GSA, April 17, 1995.

[3] NPRM, para. 6.

[4] Id., para. 22 (footnotes deleted).

As the Commission notes, since much of the network facilities that LECs will use to provide video services may also be used to provide telephone services, it must address specific issues concerning the allocation of joint and common costs. In this connection, the Commission states:

> Our cost allocation proceeding is not intended to protect competitors in video service or other competitive markets. Consequently, our rules will intentionally allocate a significant part of common costs to nonregulated services. This is appropriate because we believe that telephone ratepayers are entitled to at least some of the benefit of the economy of scope between telephony and competitive services.[5]

The Commission also proposes a system of cost allocation principles, as follows:

> We seek to establish a system of cost allocation principles that inhibits carriers from imposing on ratepayers the costs and risks of competitive, nonregulated ventures, including nonregulated video service ventures. We believe that such a system of cost allocation principles must balance: administrative simplicity; adaptability to evolving technologies; uniform application among incumbent local exchange carriers, in particular those that must file their cost allocation manuals with the Commission; and consistency with economic principles of cost-causation.[6]

GSA commends the Commission for its clear and concise exposition of its goals and purposes in this proceeding. As a large user of telecommunications services, GSA fully supports the Commission's statement of its goals and purposes.

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[5] Id., para. 23.

[6] Id., para. 24.

III. The Commission Should Allocate Over 50 Percent Of Shared Outside Plant Costs To Nonregulated.

The Commission correctly notes that the basic problem to be solved in this proceeding is the allocation of shared outside plant facility costs between regulated (telephone) and nonregulated (video) services.[7] Because the local loop and other outside plant facilities are primarily traffic insensitive, a usage-based allocation process will not result in a cost causative allocation. As Bell Atlantic has admitted, a usage-based measurement would allocate over 90 percent of shared broadband facilities to video.[8]

A broadband (video) network, however, is far more costly than a narrowband (telephone) network. As a result, the incremental cost attributable to video in an integrated video/telephone network is far greater than the incremental cost attributable to telephone. The incremental cost of video in a video/telephone network is calculated by subtracting the cost of a stand-alone telephone network from the cost of the integrated network. Dr. Leland L. Johnson has calculated that 72 percent of the incremental cost of an integrated network is attributable to video.[9] Attachment A to these Comments shows Dr. Johnson's calculations. Although any allocation of shared costs is somewhat arbitrary, an allocation of 72 percent of shared outside plant facilities to video would not be unreasonable, given

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[7] Id., para. 19.

[8] Amendment to the Bell Atlantic Telephone Companies Tariff No. 10, Transmittal Nos. 741, 786, Amended, Video Dialtone Service, CC Docket No. 95-145, Bell Atlantic Direct Case, October 26, 1995, p. 22.

[9] FCC, Applications of Pacific Bell, File Nos. W-P-C 6913-6916, Petition to Deny Pacific Bell's Section 214 Video Dialtone Applications of the California Cable Television Association, February 9, 1994, Affidavit of Leland L. Johnson, Ph.D., p. 15.

this analysis.

A 72 percent allocation would allow a LEC to enter the video market knowing that 28 percent of the cost of its broadband network will be paid for by telephone ratepayers. Telephone ratepayers, on the other hand, will share in the economies of scope of the integrated network by supporting less investment than they would in a stand-alone telephone network environment.

In any event, it is clear that over half of the cost of an integrated network should be allocated to video. GSA urges the Commission to ensure that ratepayers pay telephone rates that are just and reasonable by revising its Part 64 rules to allocate over 50 percent of shared outside plant costs to nonregulated.

IV. The Commission Should Specify That Depreciation Reserve Deficiencies Associated With The Premature Retirement Of Facilities For The Benefit of Unregulated Service Offerings Should Be Allocated To Nonregulated.

The NPRM does not address the allocation of the accumulated depreciation reserve account (Account 3100). As a general rule, this account is allocated by subaccount in proportion to investment. A specific exception to this procedure is described in the Joint Cost Order, as follows:

> An additional reason for treating unregulated activities only in the aggregate is that firms may build flexible plant capacity that is intended for unregulated use in advance of specific service plans. Facilities upgrades and accelerated replacement of older facilities might also be undertaken primarily for the benefit of unregulated service offerings. The principles adopted in this Order dictate that such costs be

excluded from the regulated accounts.[10]

The primary cost associated with the premature retirement of facilities is the creation of a depreciation reserve deficiency in the subaccounts affected.

To the extent that a LEC replaces older facilities in order to provide video programming services, depreciation reserve deficiencies may be created. The Commission should specify that such deficiencies should be allocated to nonregulated. To do otherwise would be directly contrary to the goals and purposes of this proceeding as described above, since it would require telephone ratepayers to subsidize the provision of video programming services.

V. Spare Facilities Should Be Directly Assigned Whenever Possible.

The Commission invites comment on how spare facility costs should be allocated between regulated and nonregulated activities, in particular, video programming service costs.[11] The Commission states:

> We believe that Congress did not intend that telephone exchange service or exchange access subscribers pay rates designed to recover the costs of spare capacity that eventually will be used for video programming and other services that may be competitive. This could occur, however, if, for example, spare facilities intended for competitive video programming services are allocated to residual categories that

[10] Separation of Costs of Regulated Telephone Service from Cost of Nonregulated Activities, CC Docket No. 86-111, Report and Order, 2 FCC Rcd 1298 (1987) ("Joint Cost Order"), para. 115.

[11] NPRM, para. 53.

include spare facilities reserved for telephone services.[12]

GSA agrees that spare facilities that will eventually be used for video services should not be paid for by telephone ratepayers. GSA recommends that the Commission require such costs to be assigned to separate cost pools for direct assignment to nonregulated.

VI. Outside Plant Maintenance Expense Should Be Allocated On The Basis Of Network Investment.

The Commission notes that maintenance expenses are currently allocated based on usage, and proposes to revise its rules to allocate maintenance expenses according to the same fixed factor it uses for the plant being maintained.[13]

GSA agrees that the adoption of a fixed factor for the allocation of shared outside plant requires a conforming change to the allocation of maintenance expense. The use of a fixed factor is not appropriate, however, since some outside plant will be directly assigned. GSA recommends that the allocation of outside plant maintenance expense simply be based on the relative proportion of regulated and nonregulated plant in each outside plant account.

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[12] Id.

[13] Id., para. 48.

VII. The Commission Should Not Revise Its Part 64 Rules In Any Other Respect.

The Commission's Part 64 rules for separating regulated and nonregulated costs have served the public well for nearly a decade. Throughout this period, the Part 64 system of cost allocation manuals and independent audits has protected telephone ratepayers from subsidizing LEC nonregulated ventures. Considering their importance, these rules have generated surprisingly little controversy since their implementation.

The Commission requests comment on whether changes need be made to Part 64 with respect to switching plant,[14] marketing expense[15] and overheads.[16] GSA sees no reason to change any of these rules at this time, since they remain consistent with the Commission's goals and principles as stated in the NPRM and discussed above.

The Commission also seeks comments on whether its price cap tariffing rules should in any way affect the need for its Part 64 processes,[17] and whether there are conditions under which these cost allocation rules will not be necessary.[18]

GSA believes that the Commission's Part 64 rules are essential to the performance of the Commission's accounting responsibilities as specified by the Communications Act of 1934, as amended, which states:

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[14] Id., para. 44.

[15] Id., para. 49.

[16] Id., para. 50.

[17] Id., para. 62.

[18] Id., para. 63.

> The Commission shall, by rule, prescribe a uniform system of accounts for use by telephone companies. Such uniform system shall require that each common carrier shall maintain a system of accounting methods, procedures, and techniques (including accounts and supporting records and memoranda) which shall ensure a proper allocation of all costs to and among telecommunications services, facilities, and products (and to and among classes of such services, facilities, and products) which are developed, manufactured, or offered by such common carrier.[19]

Together with Parts 32 (Uniform System of Accounts For Telecommunications Companies) and Part 36 (Jurisdictional Separations Procedures), Part 64 ensures a proper allocation of all common carrier costs. The Commission's accounting responsibilities are entirely separate from its interstate tariffing responsibilities, and must be performed pursuant to law regardless of any procedures, such as price caps, which it employs in the regulation, or deregulation, of interstate rates.

The need for procedures for the separation of regulated and nonregulated costs would remain necessary, in fact, even if the Commission and all state commissions were to adopt "pure" price caps. The Telecommunications Act of 1996 ("1996 Act") specifically requires the Commission and state commissions to "establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."[20]

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[19] Section 220 (a)(2) (emphasis added).

[20] 1996 Act, Section 254 (k).

In sum, the Commission should affirm that its accounting responsibilities require it to properly separate costs between regulated and nonregulated quite apart from its scheme of regulating interstate rates.

VIII. Conclusion

As the agency vested with the responsibility for acquiring telecommunications services on a competitive basis for use of the Federal Executive Agencies, GSA urges the Commission to revise its Part 64 rules to allocate over 50 percent of shared outside plant costs to nonregulated and make other revisions as described herein.

Respectfully submitted,
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May 28, 1996

Attachment A

Calculation of Video Incremental Cost As A Percent
Of Total Incremental Cost In An Integrated Network

Network	Investment Per Home	Percent
1. Integrated Network	$1222	100%
2. Stand-Alone Video	1017	83
3. Stand-Alone Telephone	696	57
4. Video Incremental (L1 - L3)	526	43
5. Telephone Incremental (L1 - L2)	205	17
6. Total Incremental (L4 + L5)	731	60
7. Video Incremental As Percent Of Total Incremental (L4/L6 x 100)	---	72

Source:

FCC, Applications of Pacific Bell, File Nos. W-P-C 6913-6916, Petition to Deny Pacific Bell's Section 214 Video Dialtone Applications of the California Cable Television Association, February 9, 1994, Affidavit of Leland L. Johnson, Ph.D., p. 14.

CERTIFICATE OF SERVICE

I MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 28th day of May, 1996, by hand delivery or postage paid to the following parties:

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